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Privatization In Kosovo -Case Study: The Post and Telecom of Kosovo

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Abstract

It is the worst time for Kosovo to privatize its valuable assets. Many economists and civil society have their doubts on the success of general privatization organized in Kosovo. It is suggested that the country should not make hasty decision regarding privatization of the Post and Telecom at this stage when this company is facing with major internal problems. .Despite the fact that is most profitable public company there have been no efforts to improve services in order to increase its value during the process of privatization This Illustration will document that it is the worst time for Kosovo to privatize its valuable assets. Many economists and civil society have their doubts on the success of general privatization organized in Kosovo

1. Introduction

Under Yugoslavia, Kosovo was developing to be an industrial province and this way there were more than 300 socially and state owned enterprises (Mustafa et al. 2008) developed through 1960-1970 which is also known as the „golden era. of the economy in Kosovo. Even though during the „golden era. Kosovo was becoming an industrialized place, because of political tensions the investments from the Federation (of that time) were fading out during 1980s, and during 1990s Kosovo faced a decade of deindustrialization which came as a result of no investment and intentional mismanagement. This is the reason why after the war in 1999 Kosovo was left with more than 300 mismanaged and almost destroyed enterprises and tens of thousands workers unemployed. UNMIK (United Nations Mission in Kosovo) who took control over Kosovo after the war of 1999 established Pillar IV which was responsible for the economic reconstruction in Kosovo. Pillar IV came to the conclusion that the only solution for these enterprises was their mass privatization because of Kosovo's unresolved political status and its non-eligibility for international investment/assistance. (Knudsen 2010).

Today, three years after the declaration of independence and almost by the end of privatization process, Kosovo is not seen to have had a significant economic growth. The Statistical Office reports 45.4% unemployment for 2009 with 73% unemployment amongst youth (15-24 years old)(Statistical Office of Kosovo, 2010). World Bank (2007) reports poverty rate of about 45% of population (about 2 out of 5 Kosovo's) and about 15% of the population living in extreme poverty; and unfortunately according to World Bank (2007) unlike the neighboring countries this percentage has not changed over time in Kosovo. Kosovo also faces problems with trade deficit; it is reported by the Statistical Office of Kosovo (2010) that commodities in value of €1.935,5 billion have entered the market in Kosovo, while the country has exported commodities in value of €165.3 million for the year 2009. Hence in 2009 Kosovo covered only 8.5% of the imports with its exports. By 2009 Kosovo had privatized most of the enterprises. KTA – Kosovo Trust Agency (and later KPA – Kosovo Privatization Agency) got €383 million from this process; but this amount is frozen in a bank in Europe in a Trust Fund and away from the circulation in the economy in the country (Cohu, 2010). Therefore, the process of privatization in Kosovo cannot be considered a successful one, since the country is still facing acute problems with unemployment and poverty.

2. State-building and Privatization in Kosovo

After the war in 1999, the international involvement in Kosovo tried to not only the privatization but also the building of the state. Kosovo was a very special case for the international groups trying to do this since it was both a post-socialist country and a post-conflict country (Knudsen 2010). Knudsen (2010) also points out that in the case of Kosovo, the „transition. part was more emphasized by the international community rather than the „development. part. The rationale behind this process is the idea that when a market liberal democracy is built, the country will then be able to protect itself from other problems that may come. Part of this transition was of course the process of privatization for the socially-owned enterprises which was accounted to be the only solution for Kosovo having in mind the ambiguity surrounding the ownership of these enterprises. However, nobody was concerned with the fact that the international state-builders decided on this massive privatization method; various critics were more focused on the improvement of the privatization practice rather than being focused on the question of why we should conduct this privatization (Knudsen, 2010). Even though Pillar IV.s aim was to reconstruct and develop Kosovo's economy through the process of privatization, there have never been questions and answers on whether the methods used by Pillar IV would be successful or not (Knudsen, 2010).

UMNIK and Pillar IV stated that in order to ensure economic growth and prosperity for Kosovo, privatization will be their “key policy to promote the growth and development of a market economy in Kosovo” (Zanum 2007, in Knudsen 2010).Kosovo at that time had just gone out of a war and was just then trying to establish the new governance Pillar IV had to create an institution that would organize and manage these enterprises until their privatization. Different local authors argued that KTA (Kosovo Trust Agency) will not be able to manage and prepare these enterprises for privatization because this process required larger personnel than the one KTA possessed and that this whole process is a huge bite that KTA cannot chew. Unfortunately, the international community in Kosovo during that time behaved with an unprecedented arrogance and never took into account the recommendations that came from local experts. This way KTA restructured these 313 „socially owned. enterprises into 551 NEWCOs and started the privatization process in June 2003 (Mustafa et al. 2008).

However, Pillar IV and KTA were facing some other problems before the start of the process of privatization. They were struggling to determine the ownership of these enterprises before the privatization. First, Serbia was claiming ownership over the enterprises – in fact they were claiming ownership over Kosovo as a whole and second Yugoslavia had two different kinds of enterprises: „public. and „social. enterprises. „Public. enterprises were owned by the state but the problem turned to be the term „social.. Unfortunately there was no definition anywhere on the idea of who is the owner of the „social. enterprises and it was suggested that this ambiguity was done intentionally because the values that were „socially. owned in Yugoslavia belonged to the society as a whole, „to no one and to everyone’ (Lazic and Sekelj 1997, p. 1061, in Knudsen 2010). Of course, all the countries that were part of Yugoslavia were faced with the same problem. Korovilas (2006) explains that countries that were part of Yugoslavia decided to first nationalize the SOEs and then privatize them, with the state receiving the profits. On the other hand, the case of Kosovo differed a lot from the cases of its neighboring countries that were part of Yugoslavia. This came as a result of the fact that Kosovo was not a state yet, and UNMIK on the other side did not have the authority to impose changes on the ownership rights. As stated, the whole process of privatization in Kosovo differed from the processes in other countries of ex-Yugoslavia. Even the debates on the issues of privatization in Kosovo differed from the debates in countries of ex-Yugoslavia or other Eastern Europe. The debates in Kosovo focused on two points (Korovilas, 2006): (a) there was a debate on whether the country should follow the limited possibilities of privatization or not. The critics were divided in two groups, one favoring the restoration of the SOEs and the other group favoring the liquidation of the SOEs through privatization; (b) there were doubts among people on whether UNMIK.s administration can transfer the ownership of these SOEs to private owners in a legitimate way. There were cases when SOEs were privatized during the Serbian regime but UNMIK did not recognize them because it was believed that these processes were discriminatory. Anyway, this and other problems like this were successfully transcended and KTA (and later Kosovo Privatization Agency -KPA, after the Declaration of Independence in 2008) privatized around 350 enterprises for about €383 million by 2008 and at this time, there were around 100 other enterprises to be privatized. The last waves of privatization were supposed to tender the most important enterprises that Kosovo owned: mine of Trepça, Ski Resort Brezovica, the unresolved status of SOEs in Gjakova, Post and Telecom, Prishtina International Airport. Because of the importance of these enterprises for the economic development of the country, these last waves of privatization have been very controversial, highly debated and this way this process has been dragged.

In a more recent article, the Organization for Democracy, Anticorruption and Dignity - Cohu argues that the process of privatization should be stopped immediately since it is a non-transparent and corrupted process sending the country to a deeper poverty. Cohu defends this attitude with various arguments (Cohu, 2010a): 1) enterprises are being privatized even though they are profitable. According to the critics, it is not possible under any circumstance for the government to gain more from the privatization of an enterprise compared to what the government can gain from the profits of this enterprise. They come to the same conclusion with the employment also; 2) the money of privatization, almost €500 million, are frozen in a bank account somewhere in Europe while the Government is planning to get a credit of €200 million from World Bank to fund the unclear plan of improving the public sector!; 3) the process of privatization is continuing even though after almost ten years it has not shown any positive sign for the country.s economy. Unemployment and poverty have not declined- in contrary they have increased in the last decade, trade deficit has also increased in the last decade. Ten years are more than enough for the government to evaluate whether the privatization methods have been profitable for the country or not; 4) the sale of the public assets is done without a strategy or a plan for development. Usually public assets/enterprises are sold to fill the budget in order to finance capital investments. But Kosovo does not even have a Development Strategy yet, therefore the privatization of these assets is unnecessary; 5) privatization does not necessarily mean an end to corruption. There are examples from the countries of the socialist block that retained some strategic sectors under the state ownership, even countries that were never part of the socialist block have done the same thing. Usually the countries that have rushed with the privatization of all the economic sectors have stagnated in the economic development. The money gained from the privatization of mismanaged firms most of the time will be mismanaged when spent because they are both brought to collapse by the same politics. The most debated issue is the privatization of the Post and Telecom because the hugeimportance of this corporate in Kosovo.s economy. The next part of this paper tries to present the arguments from the debate on privatization of Post and Telecom of Kosovo.

3. Case Study: The Post and Telecom of Kosovo

The privatization of Post and Telecom has been widely argued by different local and international experts. Most of the local experts are against the privatization of Post and Telecom of Kosovo because it is estimated to be the most valuable asset of the country. Experts say that this period of time is not the most convenient for the privatization of this valuable asset. Founded in 1959 Post and Telecommunications of Kosovo (PTK) is a public owned enterprise which was transformed to Joint Stock Group in 2005 by KTA and named as Post and Telecommunications of Kosovo JSC.

PTK now consists of four main business divisions (Mustafa et. al, 2009, p.28):

. Post of Kosovo
. Telecom of Kosovo
. Vala – the Mobile operator and
. DardaNet – an internet service Business unit.

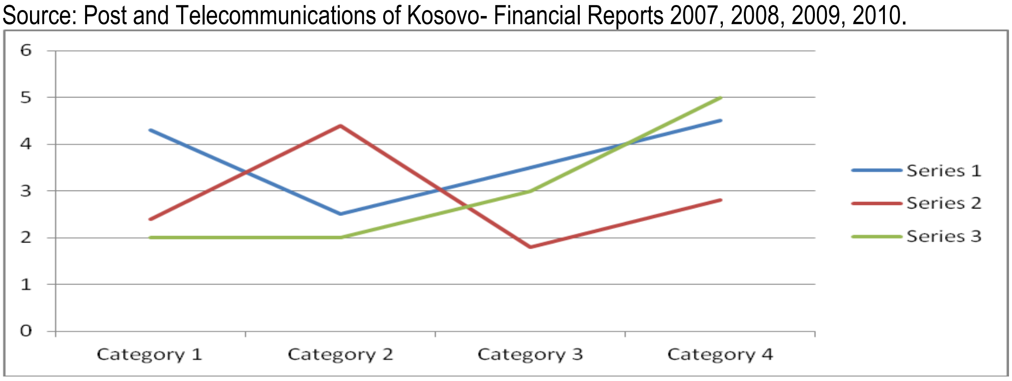
Until recently, Vala- the mobile operator, was the only mobile operator in Kosovo but since 2008 it has only one competitor in the market. Nevertheless, Vala now serves over one million clients (Mustafa et.al, 2009). According to Mustafa et.al(2009) Vala generates over 70% of total revenues of PTK making this unit the most profitable among all four major units and thus making it very attractive to foreign investors.

Being one of the largest employers in the country, currently employing around 3200 people and also being the most profitable public owned company in Kosovo, PTK has a considerably high impact on the Kosovo.s economy and society as well (Mustafa et.al, 2009). In July 2010, the Government of Kosovo has signed a Memorandum of Economic and Financial Policies with the International Monetary Fund where they agree to privatize Post and Telecom in order to cover the €300 million deficit. They decided to put €300 million (Abdixhiku, 2011) as a low benchmark during the privatization for the assets of the Post and Telecom, but the local experts are assessing that this corporation is more valuable than that. Post and Telecom of Kosovo only in the last four years has registered revenue of about €350 million; in 2009 Kosovo's budget got €200 million as a dividend, in 2010 the budget got €80 million as a dividend (Abdixhiku, 2011). Having in mind the corruption, nepotism and other problems that are happening in this corporation, it still is the most valuable economic asset that Kosovo has.

Table 2 presents the net profit of PTK for the years 2006-2010. The data presented are in millions of Euros (€).

2006	2007	2008	2009	2010
32.375	50.375	60.125	49.565	37.656

Source: Post and Telecommunications of Kosovo- Financial Reports 2007, 2008, 2009, 2010.



And on top of everything, the Constitution of Republic of Kosovo forbids the privatization of a state asset in order to cover a loss (Abdixhiku, 2011). Therefore, the privatization of Post and Telecom, in these circumstances, on top of everything is illegal! A number of local authors have argued that this is not the best time for Kosovo to be privatizing its most valuable asset and this for the simple reason that in this moment the country does not have a very bright image in the international arena. This of course would reflect in the decision of every serious international company that would be willing to privatize Post and Telecom. Recently, Kosovo was not presented as very attractive country to invest, co published by World Bank and the International Finance Corporation in Doing Business 2011, being ranked for ease of doing business in the 199th place. The same document ranks Kosovo for protecting investors in 173rd place and for enforcing contract in 155th place (World Bank and IFC,2010). Unfortunately, according to this document, Kosovo is the least attractive country among its neighbouring countries for foreign investments. Hence documents like this will definitely affect the decisions of possible serious buyers of the Post and Telecom. EBRD (2008) conducted a study in which the telecommunication sectors in the transition countries were compared. According to this study, the current situation of this sector is not very attractive. Kosovo has some huge obstacles to pass in order to be equally attractive for investments as the neighboring countries. The Telecommunications Law of 2003 established The Telecommunications Regulatory Authority (TRA) which started its operation in January 2004. This authority is responsible for the adoption of the instructions under the Telecommunications Law, adopting regulations, authorization and license issuing etc. Even though this authority was established to be an independent

institution, the political interference has been very obvious. Ensuring this authority's transparency and independence is one of the main challenges that the sector of telecommunications faces in Kosovo. Most of the neighboring countries have established the National Regulatory Authority (NRA), but in the case of Kosovo the NRA is dependent financially on the budget of the state, therefore it's independence is almost impossible. The Telecommunications Regulatory Authority issued the license for the second mobile operator in Kosovo in 2008 and the same company was also issued the license for the second fixed telephone network. International Telecommunication Union (ITU) has not assigned a country code for Kosovo, therefore the country uses Serbia's country code (+381) for the fixed network, Vala uses Monaco's country
code (+377) and IPKO (the second mobile operator) uses Slovenia.s country code (+386).

When compared to the neighboring countries, Kosovo has not resulted to be a very attractive market for investment, especially for international investment. Fees of licensing are very high in Kosovo and this is evaluated by the EBRD (2008) to be an entry barrier. Kosovo is assessed to be of medium compliance with the SEE sub-region. When speaking of fixed network, Kosovo is assessed to be below the average of the sub-regional countries. The countries that are evaluated to be below the average now tend to also provide broadband services with the fixed network. Kosovo is also below the average market penetration in the mobile sector too, when compared to the sub-regional countries.

Organization for Democracy, Anticorruption and Dignity – Cohu has been working hard to convince both the civil society and the authorities that the privatization of the socially-owned assets is using the current methods is harmful for the economy of
Kosovo. Chou has organized various activities to show its opposition toward the Privatization of the Post and Telecom. In ne of the articles published in 2008 Cohu argues that (Cohu, 2008):(a) the initiation of privatization of Post and Telecom without the assessment of the results of the previous phases of the process of privatization in Kosovo; (b) the process of rivatization of Post and Telecom is being initiated without an assessment of the asset value of Post and Telecom and this makes manipulations with the price possible; (c) the Government has decided to start the privatization of Post and Telecom without knowing whether this privatization is necessary for the company and whether it should be a partial or a complete privatization. In the same article, Cohu emphasizes five very important things that the worker syndicates should ask before the start of the process of privatization of Post and Telecom (Cohu, 2008): (a) the creation of a privatization strategy; (b) the
assessment of the reasons behind the privatization of Post and Telecom; (c) the clarification of the contract with Dardafon; (d) transparency around the people that will lead the process of privatization; (e) the setting of the asset value of Post and
Telecom. In 2010, Cohu published one more article, which one more time tried to oppose the idea of privatization of Post and Telecom. They explained that the process of privatization of Post has been a very closed process led by the Prime Minister of Kosovo and the Minister of Economics and Finance. Even the Assembly of Kosovo has not been informed of this process (Cohu, 2010b).

Kosovo still does not have a country code, therefore the Post is faced with incredibly huge costs for using other countries. codes. Post and Telecom also pays for the international fixed calls because of the lack of the country code. The country does not have a signed agreement that would decrease these expensive charges. The authorities of the Post and Telecom of Kosovo admit that they will only make an agreement with Telecom Serbia if this agreement is done between two countries, which because of politics reasons is unacceptable for Serbia[1]. According to the calculations of Post and Telecom, in 2010 Kosovo has received calls in amount of about€13 million through Telecom Serbia while there were calls gone from Kosovo through Telecom Serbia in amount of about €7 million, which means that Telecom erbia owes Post and Telecom of Kosovo about €6 million[2]. But unfortunately these are political problems that cannot be dealt by Post and Telecom of Kosovo and Telecom Serbia by themselves and therefore they are meant to be resolved
sometimes between two countries.

4.1. Summary and Conclusion

As seen from the discussion above, the process of privatization in Kosovo was followed by a lot of discussion, discontent and objections by various groups. In different stages, this debate has taken different directions and also in some stages there was almost no discussion at all. The final stage of this process includes the most sensitive and important enterprises for the economy and the future of the country, therefore the debate has been more intense. In general the whole process of privatization has been highly debated since its impact
on the improvement of the country's economy (and people's lives) is not evident even almost one decade after the start of this process. In contrary, now the country owns only a little fraction of the economic wealth it used to own and on the other
side the poverty and unemployment are only raising. The money raised from the privatization of the socially-owned enterprises are kept in a fund in a bank in Europe and away from the market in Kosovo. Hence, more than €300 million that should have been invested or at least circulated in the market in Kosovo are blocked while the Government applies for credits from the World Bank in order to fund various planned investments. Another problem with the whole implementation of this process is the doubts of the experts on the power of UNMIK itself to make decisions on behalf the Kosovo for the ownership of the country's most

[1] *http://www.zeri.info/artikulli/2/8/30232/ptk-humb-6-milione-euro/ [Accessed on 23 August 2011]*
[2] *http://www.zeri.info/artikulli/2/8/30232/ptk-humb-6-milione-euro/ [Accessed on 23 August 2011]*

valuable economic assets and the impossibility of the local experts to be part of this process and give their opinions. Thus the lack of participation of the local experts in the decision-making in the beginning of this process of privatization is seen as one of the biggest problems of the process as a whole. The worst part is the fact that the future of this fund is unclear because of the unsolved ownership problems before the process of privatization had even started. Probably the most debated case of privatization is the case of the Post and Telecom of Kosovo. This, because the Post and Telecom is the most important enterprise of Kosovo's economy today playing a very important role by employing a big number of people, paying taxes and dividends to the Government and also supporting the society through various funds and scholarships. When speaking of the process of privatization of Post and Telecom, the civil society has expressed the concern that the government has not been transparent enough during the decision-making period. Another concern is the fact that the government has not conducted a study that would evaluate the gains and losses of the country from the privatization of the Post and Telecom. The assets of the Post and Telecom have never been valued and the Government has decided to start the privatization of this asset without knowing its approximate value. Experts also see a deterioration of this asset since the decision for its privatization. According to them, the Ministry of Economy is in an indirect way responsible for this deterioration since this Ministry is now responsible for the management of the Post and Telecom until its privatization. This deterioration comes as a result of the fact that the enterprise has drastically increased the number of employees in this last two years and of course this will directly impact the value of the enterprise during its process of privatization. The profits of vala – the mobile operator, have also decreased in the last two years and the main reasons for this according to the management of the post are the impossibility of enlargement and the mismanagement of the enterprise. The Post and Telecom has also signed a very harmful agreement with a phantom firm in which agreement the Post gives 73% of its shares to this company. Of course all these things that happened during the supervision of the Ministry of Economy have negatively impacted the integrity of the enterprise and also directly impact its value in the privatization process. The Government of Kosovo has decided to sell the most valuable asset of the country without knowing for sure that the money gained can be invested in the country in the near future. This way the Government has decided to give up the dividends that it used to collect as the owner of the Post and Telecom for an unclear amount of money and even worse without knowing if this amount can be invested back in the country and when it can be invested. According to the Government, the reasons behind the privatization of this asset are the inability of the Government to control the mismanagement happening inside this enterprise, the corruption and the enterprise's inability to further develop because of

the competition. The Government also suggests that the market in Kosovo is small and they don't see potential for the enterprise to further expand. Of course all these reasons presented by the Government will negatively impact the decision of potential serious buyers. The financial crisis faced by numerous countries around the World is one other reason why the privatization of the Post and Telecom has been opposed by the civil society. The most serious potential buyers would not be willing to invest in Kosovo in the moment when there are high fluctuations in their own economies and their chance of big losses is higher. Even worse, if the company does not have potential to further develop, the potential serious buyers would not risk and make the investment. Therefore the country is left with buyers that would risk to privatize the Post and Telecom but on the other side do not plan to make big investments that would be profitable for the country. This is one more reason why the Government should not be persistent in privatizing the Post and Telecom in this moment. It is very understandable that an investor decides on a potential investment according to the economic performance of the country where this investment will be conducted, the country's ability to protect various rights of the investor and the investor's ability to gain profits out of the investment. Unfortunately Kosovo at the moment is not highly ranked in protecting the investors and the country is facing various economic and social problems. As seen in the previous chapter, Kosovo has not invested in developing these features but in contrary the World Bank in Doing Business has ranked it even lower if compared to one year earlier. This fact one more time pushes away serious potential investors from whom the Kosovo would gain, leaving the

country with investors with limited investment capacities. Therefore, Kosovo should give up for the moment from the idea of privatizing its most valuable asset. The Government should invest in controlling the corruption and nepotism- the two biggest roblems of the company, get rid of the harmful agreements, lower the number of employees and try to raise again the profits of Vala. Meanwhile, Kosovo should also invest in improving the image of the country in the international arena. All these improvements would have a huge impact on the price of the asset when it goes through the process of privatization, the company would be privatized by a serious investor who would invest in improving the services of the company and this way the company's clients would gain too. With a little effort and investment from the Government, the value of the Post and Telecom would increase and both the Government and the Post's clients would benefit more.

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